MétroRichelieu

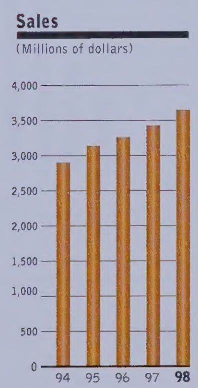
ANNUAL REPORT
1998

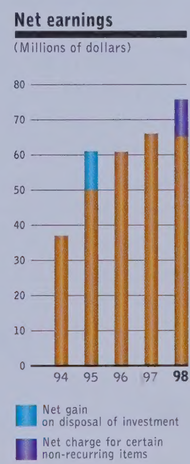
Métro-Richelieu Inc., a leader in Québec's food distribution industry, achieved record sales for the eighth consecutive year. During the past five years, the Company's sales increased at an average annual rate of 5.7%, from $2.8 billion in 1993 to $3.7 billion in 1998.

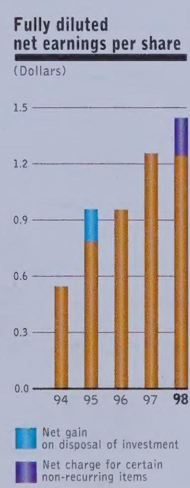
- The Métro banner is No. 1 in Québec's supermarket segment.
- With its Super C and Marché Richelieu banners, the Company is well positioned in the discount and neighbourhood markets.
- In the food services sector, the Éconogros, Distagro and Pêcheries Atlantiques divisions serve more than 4,000 customers.
- Métro-Richelieu is also active in the pharmaceutical segment through its subsidiary McMahon Distributeur pharmaceutique Inc., which acts as a wholesaler and franchisor for the Brunet and Clini-Plus drugstore chains.
- Métro-Richelieu supplies its customers from its 14 distribution centres located throughout Québec.

Métro-Richelieu directly employs 6,700 people, and its retailers employ more than 15,000.

	1998	1997	1996	1998-97 % change	1997-96 % change
Operating results *(Millions of dollars)*					
Sales	3,653.0	3,432.3	3,266.0	6.4	5.1
Operating income	130.2	115.4	105.0	12.8	9.9
Net earnings before certain non-recurring items	75.9	66.2	61.0	14.7	8.5
Net earnings	65.4	66.2	61.0	(1.2)	8.5
Financial structure *(Millions of dollars)*					
Total assets	787.5	725.5	663.1	8.5	9.4
Long-term debt	48.6	94.6	106.2	(48.6)	(10.9)
Shareholders' equity	342.6	296.2	240.5	15.7	23.2
Per common share *(Dollars)*					
Net earnings before certain non-recurring items	1.49	1.29	1.00	15.5	29.0
Net earnings	1.28	1.29	1.00	(0.8)	29.0
Fully diluted net earnings before certain non-recurring items	1.45	1.26	0.96	15.1	31.3
Fully diluted net earnings	1.25	1.26	0.96	(0.8)	31.3
Book value	6.75	5.80	4.73	16.4	22.6
Dividends	0.205	0.15	0.11	36.7	36.4
Financial ratios					
Net earnings before certain non-recurring items/sales (%)	2.08	1.93	1.87	7.8	3.2
Net earnings/sales (%)	1.79	1.93	1.87	(7.3)	3.2
Long-term debt/equity (xx:1)	0.14	0.32	0.44	(56.3)	(27.3)
Market value *(Dollars)*					
High	22.25	17.05	10.20	30.5	67.2
Low	14.50	9.25	8.20	56.8	12.8
Number of shares traded *(Millions)*	22.2	35.7	46.5	(37.8)	(23.2)







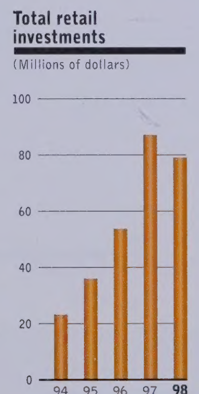
Retail network

Food

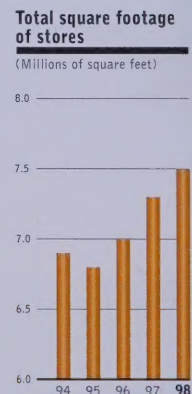
	METRO	super C	MARCHÉ RICHELIEU
Corporate:	4		
Franchised:	49		
Affiliated:	233		
Number of stores	**286**	**35**	**189**
Average store size *(Square feet)*	**17,189**	**47,420**	**4,621**
Total square footage *(Thousands of square feet)*	**4,916**	**1,660**	**874**

Other banners *(number of stores)*

MARCHÉ AMI, GEM, MARCHÉ EXTRA, SOS, SERVIT and SERVICE: **487**



By the Company and its retailers



Pharmaceutical

	brunet	CLINI PLUS
Number of drugstores	**70**	**46**

"We are especially pleased with achieving record sales for the eighth consecutive year."

For the eighth consecutive year, Métro-Richelieu achieved record sales in 1998.

This performance clearly demonstrates our ability to harness the efficiency of our management systems, the quality of our merchandising programs and the professionalism of our distribution and retail teams.

Métro-Richelieu recorded sales of $3.7 billion for the year, an increase of 6.4% from $3.4 billion in 1997. In terms of net income, the results were also positive. Net earnings before certain non-recurring items were up 14.7% to $75.9 million, representing fully diluted net earnings per share of $1.45. After certain non-recurring items, net earnings amounted to $65.4 million or $1.25 per share on a fully diluted basis.The financial results are further discussed in the Financial Review section of this report.

Apart from our financial performance, we are especially pleased with achieving record sales for the eighth consecutive year. It proves that even in a context of keen competition, we are able to step up the pace of our development. Our growth is the result of the strategic plan that we have been implementing for some years now.

In 1993, the most ambitious renovation and expansion program in the Company's history was launched. In the past five years, close to $300 million was invested by Métro-Richelieu and its retailers in the expansion of its retail network, adding 1,270,000 square feet to the total retail floor space, an increase of 19%. After the closing of certain stores, the net increase was 745,000 square feet. Over the five-year period, 180 Métro supermarkets, 21 Super C discount stores and 36 Marché Richelieu neighbourhood markets were modernized and six Métro supermarkets and 10 Super C discount stores were opened or relocated.

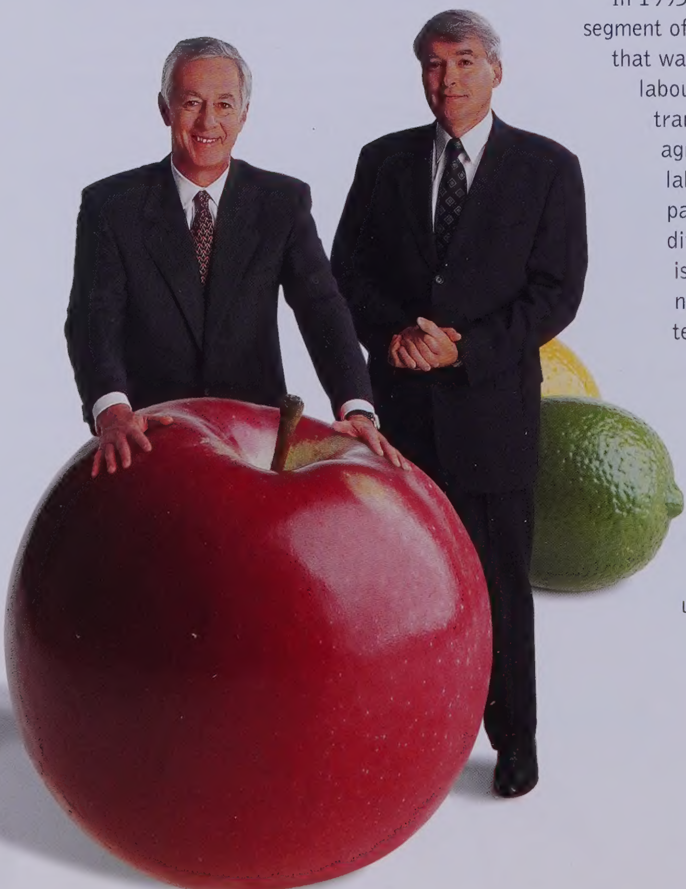
Today, with a modern network of stores, Métro-Richelieu can count on the quality of its food retailing to maintain its leadership in the industry.

In line with our vision of the Company's future, we have continued the implementation of a state-of-the-art technological platform, the SAP R/3 management software, recognized as one of the most sophisticated information management systems in the food industry.

The first phase of this process that began in 1997 was completed in 1998, and we are confident that our investment of some $33 million will start paying dividends in year 2000. Métro-Richelieu will then be equipped with systems giving quick access to comprehensive management information, increased flexibility and better operational control. In addition, we will for the first time have a common platform for real-time, optimal management of all our wholesale and retail activities.

In the area of human resources, we have focused on our employees' and retailers' training, designing programs to keep them at the cutting edge of the latest trends in customer service and technological changes. In 1998, we invested more than $1.8 million in professional training.

In 1993, Métro-Richelieu sold the transportation segment of its Montréal Grocery division, a decision that was successfully contested in court by the labour union. In September 1998, after transportation activities were resumed, an agreement was reached with respect to a new labour contract and compensations to be paid to the employees of the transportation division. This six-year collective agreement is better adapted to customers' needs and new industry requirements, especially in terms of working schedules and operational flexibility. Consequently, the Company should enjoy more harmonious labour relations. The cost of the agreement, including all related expenses, amounted to $34.1 million. Of this amount, $10 million had been recorded in previous years, and $24.1 million was allocated as an unusual charge in fiscal 1998.



Métro-Richelieu can count on the quality of its food retail network for continued growth.

Even with these non-recurring expenses, the ongoing share redemption program and the investments made in the retail network, Métro-Richelieu still has one of the most solid financial structures in the industry. Long-term debt stood at $48.6 million, down from $94.6 million in 1997 and shareholders' equity was $342.6, up from $296.2 million. Given the sound financial position, the Board of Directors has raised the annual dividend to $0.205 per share from $0.15 per share in 1997, for a 36.7% increase. Since January 1998, the quarterly dividend stands at $0.055 per share.

Our action plan for 1999 will focus on the continued remodelling of our retail network and the opening of new stores. This program, in which the Company and the retailers will invest close to $80 million, will expand retail floor space by almost 4%. We will also complete the implementation of the SAP R/3 management software throughout our operations with the objective of gaining a competitive edge through better information management and greater efficiency. We will also capitalize on Métro-Richelieu's excellent performance in the area of house-brand products, which represent 22% of our grocery sales volume. In 1999, we will put more emphasis on the merchandising and promotion of our new *Merit Selection* controlled-brand products, which will gradually replace our *Métro-The obvious choice* and *Marché Richelieu* private-label products.

In a broader perspective, Métro-Richelieu will continue to adapt quickly to the changes currently sweeping the food industry by drawing on:

- the vitality of its retail network;
- a range of products well suited to the needs of consumers;
- the unique relationship that has existed for more than 50 years between our retailers and their customers;
- further integration of all the latest information technology; and
- one of the strongest financial structures in the industry.

By drawing on its strengths, Métro-Richelieu is well positioned to continue its profit growth under optimal conditions and take advantage of the various opportunities that may arise from the consolidation under way in the food industry.

This consolidation is a new challenge and we are confident that with the support of our shareholders, the involvement of our officers, the competence of our employees and the commitment of our retailers, Métro-Richelieu will meet it successfully.

Pierre H. Lessard, FCA
President and Chief Executive Officer

Jean-Pierre Boyer
Chairman of the Board

A MODERN NETWORK FOR THE 21ST CENTURY CONSUMER

In 1993, in order to offer consumers added value and a pleasant shopping environment, Métro-Richelieu and its retailers launched the largest store renovation, expansion and construction program in the Company's history. Their determination to meet the present and future needs of a growing number of consumers translated into record investments of nearly $300 million in the past five years. By year 2000, an additional investment of over $150 million will have been made to ensure that Métro-Richelieu has one of the most up-to-date retail networks in the industry.

With our ***Viandes & idées*** concept, customers can obtain advice on how to purchase and prepare their meat.

Métro-Richelieu has a modern network of stores to serve its customers.

Pêcheries Atlantiques supplies us with a large variety of fish and seafood products.

METRO

Service, variety, freshness and quality.

Customers find food shopping is a pleasure.

SATISFYING TODAY'S TASTES

Métro-Richelieu is aware that society is changing rapidly and that its retailers need to keep pace, if not a step ahead. Increasing competition, and above all our determination to change with the times, have prompted us to add value to the range of fresh products and grocery items we offer. Our meats, with our *Viandes & idées* concept, baked goods, fish, prepared foods and fresh pasta offer consumers the variety, uniqueness and freshness they are looking for. Capitalizing on the popularity of its house-brand products, Métro-Richelieu will undertake a major change in 1999 that will gradually replace its private labels, *Métro-The obvious choice* and *Marché Richelieu,* with a controlled brand called *Merit Selection.*

In 1999, a major merchandising program will be under-taken to replace the *Métro-The obvious choice* and *Marché Richelieu* products with the controlled brand, ***Merit Selection***.

Our fresh products include a large variety of store-baked items.

Marché Richelieu offers customers a warm new environment.

INCREASING EFFICIENCY

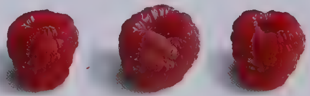
By carefully investing in technologies designed to improve management processes, Métro-Richelieu and its retailers will be well positioned to maintain their profit growth under optimal conditions. The implementation of the SAP R/3 software will provide the Company with new tools for better integration of its inventory and supplies, greater productivity and faster, more efficient customer service. With this new technological infrastructure, Métro-Richelieu and its retailers will be ready to meet the challenges of a competitive environment in the 21st century.

Super C features a vast selection of fresh products.

The large **Super C** stores offer products at discount prices.

A TEAM OF KNOWLEDGEABLE PROFESSIONALS

The Métro-Richelieu team consists of over 21,700 professionals. Their motivation, their energy and their determination to constantly improve are the very foundation of our success. More than 2,500 retail employees attended our *1998 Novelty Exhibition*, where they could explore the latest trends in the food industry. We have designed a training program, *The Métro School for Professionals*, to assist them in improving their expertise. In addition, we offered more than 133,000 hours of training to our corporate and retail employees. For Métro-Richelieu, training is a priority to ensure that our employees remain at the forefront, and that the best information is available to our customers.



The Métro School for Professionals teaches our staff to answer customers' questions about the latest food trends.

A wide selection of prepared foods for every taste and occasion.

The retail network has modern communications and data transfer equipment.

Summary of activities

Métro-Richelieu operates in two industry segments throughout Québec. It is a leader in the food industry, and it is also active in pharmaceuticals.

The Company operates mainly in the food industry, with its wholesale and retail activities as well as those which are more specifically related to food services.

From their distribution centres across the province, the wholesale divisions provide customers with grocery products, fruits and vegetables, fish and seafood as well as meat and frozen foods under the Company's banners.

As a leading food distributor in Québec, Métro-Richelieu stands out with its large network of food stores. Strategically positioned, the Company is well established in all market segments. The Métro banner, which reached new heights in 1998, is still number one in the supermarket segment with 286 outlets. Métro-Richelieu also operates in the discount store segment under the Super C banner which now has 35 stores. As for the neighbourhood store segment, the Company has about 189 stores under the Marché Richelieu banner.

Most Métro supermarkets and Marché Richelieu food stores are run by affiliated or franchised retailers, and Super C discount food stores are operated by the Company. Métro-Richelieu also operates some Métro supermarkets on a temporary basis which, in addition to the Super C discount stores, are corporate outlets and are included in our retail divisions.

The Company is also applying its expertise to the food services market through its Éconogros, Distagro and Pêcheries Atlantiques divisions which supply public institutions, hotels, restaurants, restaurant chains and large convenience store networks with groceries and frozen foods.

In conjunction with its activities in the food industry, the Company has earned a position in the pharmaceutical market through its subsidiary, McMahon Distributeur pharmaceutique Inc., which is a wholesale distributor of pharmaceutical and parapharmaceutical products. It is also the franchisor for the Brunet and Clini-Plus banners.

Sales

Métro-Richelieu achieved record sales of $3,653.0 million in 1998, up 6.4% over 1997. The food segment's sales increased by 5.5% to $3,444.5 million. The wholesale divisions reported sales of $2,540.9 million before eliminations, up 3.6% compared with last year. These divisions benefitted from the increase in sales of Métro, Marché Richelieu and Super C stores, resulting from the Company's and its retailers' sustained efforts to modernize the store network.

Segmented sales

(Millions of dollars)	1998	1997	1996
Industry segments			
Food			
Wholesale	$ 2,540.9	$ 2,453.3	$ 2,337.8
Food services	358.7	301.8	281.7
Retail	894.6	837.7	772.3
	3,794.2	3,592.8	3,391.8
Eliminations	349.7	327.0	321.4
	3,444.5	3,265.8	3,070.4
Pharmaceutical	208.5	166.5	195.6
	$ 3,653.0	$ 3,432.3	$ 3,266.0

During the year, the Company and its affiliated retailers injected $79.1 million in the retail network, with Métro-Richelieu investing $36.9 million to renovate, expand and build 13 corporate and franchised outlets and the affiliated retailers investing $42.2 million in their stores. In the past five years, 253 stores were either converted or built for a total of nearly $300 million, bringing the total retail floor space to nearly 7.5 million square feet.

Sales of the food services divisions grew by 18.9% in 1998, to reach $358.7 million. During the year, new customers across the country were added to these divisions. This growth reflects our quality service.

Métro-Richelieu is also active in the retail food industry. The retail divisions' sales include the cumulative sales of the various corporate outlets. These divisions continued to grow with sales totalling $894.6 million, up 6.8% over last year. Sales of Super C stores rose by 6.6% during the year. As part of its $36.9 million retail investment program, the Company spent $30.6 million on its Super C discount stores, renovating eight of them and building two new ones.

In 1998, sales of pharmaceuticals increased to $208.5 million, compared with $166.5 million last year, up 25.2%. The development of the Brunet and Clini-Plus banners, coupled with an overall increase in sales to its other customers, contributed to the growth of this segment.

Operating income

Operating income amounted to $130.2 million compared with $115.4 million in 1997, an increase of $14.8 million or 12.8%. This represents 3.6% of sales versus 3.4% last year, reflecting the operating efficiency of each of the Company's segments and divisions as well as the reasonableness of the retail investments made over the past year.

The food segment continued to grow and reported segment operating income of $127.1 million in 1998 compared with $113.0 million in 1997, an increase of 12.5%. Operating income for the pharmaceutical segment totalled $3.1 million in 1998 compared with $2.4 million last year, a 29.2% improvement.

Segmented earnings

(Millions of dollars)	1998	1997	1996
Operating income			
Food	$ 127.1	$ 113.0	$ 102.1
Pharmaceutical	3.1	2.4	2.9
	130.2	115.4	105.0
Financing costs	4.9	5.3	3.0
Earnings before income taxes and the following items	125.3	110.1	102.0
Labour relations settlement	24.1	—	—
Gain on disposal of investment	(6.1)	—	—
Earnings before income taxes	107.3	110.1	102.0
Income taxes	41.9	43.9	41.0
Net earnings	$ 65.4	$ 66.2	$ 61.0

Financing costs

Financing costs totalled $4.9 million in 1998, down from last year. These costs represent 0.13% of sales this year, compared with 0.15% in 1997. The average financing cost for the year ended September 26, 1998 was 4.48%. The interest coverage ratio rose from 21.8 times in 1997 to 22.9 times in 1998.

Non-recurring items

During the year, the Company recorded as non-recurring items a charge related to a labour relations settlement and a gain on the disposal of an investment.

Labour relations settlement

At the end of the year, the Company reached an agreement relating to a new labour contract and the compensations payable to truck drivers at its food distribution centre in Montréal. The new six-year collective agreement is better adapted to customers' needs and new industry requirements, particularly in terms of working schedules, employment of part-time workers and operational flexibility. The settlement put an end to the labour conflicts between the union and the Company brought before the courts following the sale of the transportation and printing segments in February 1993 and August 1992, respectively. The $24.1 million charge was added to the provisions totalling $10.0 million recorded in previous years in order to cover the settlement costs and related expenses. The settlement was also partially offset by a gain on the disposal of an investment.

Gain on disposal of investment

The Company realized a gain before taxes of $6.1 million on the disposal of a portion of its interest in Alimentation Couche-Tard Inc. Métro-Richelieu is still a shareholder of this company and considers this investment as a company subject to significant influence.

Net earnings

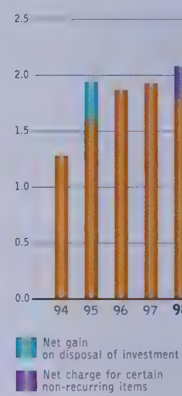
Net earnings excluding certain non-recurring items amounted to $75.9 million, compared with $66.2 million last year, up 14.7%, while fully diluted net earnings per share, excluding certain non-recurring items, increased by 15.1% to $1.45, compared with $1.26 in 1997. Net earnings including certain non-recurring items reached $65.4 million, or 1.79% of sales, compared with $66.2 million, or 1.93%, in 1997. Net earnings decreased by 1.2%, while fully diluted net earnings per share including certain non-recurring items dropped by 0.8%, to $1.25 per share, compared with $1.26 in 1997. Return on shareholders' equity was 20.5% this year, versus 24.7% last year. The weighted average number of shares outstanding in 1998 was 50.9 million, and 51.2 million in 1997.

Financial structure

During 1998, the Company's overall operating activities provided cash inflows of $121.2 million, compared with $89.0 million for the previous year. These funds were used primarily to acquire tangible and intangible capital assets for a total consideration of $80.5 million, $36.9 million of which was allocated to store renovation, modernization and construction projects, compared with a total of $78.7 million in 1997, including $44.4 million in retail investments.

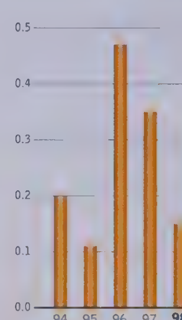
Net earnings / Sales

(%)



Total debt / Equity

(xx:1)

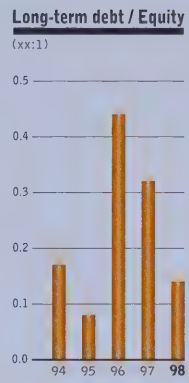


For the fourth consecutive year, the Company also used its cash flow from operations to pay its shareholders a dividend, which amounted to $0.205 per share, compared with $0.15 per share last year, on its Class A Subordinate Shares and Class B Shares. In January 1998, the Board of Directors raised the quarterly dividend paid to all its shareholders by 37.5% to $0.055 per share, compared with $0.04 per share last year. The Company's policy is to pay an annual dividend equal to 15% of the previous year's net earnings before any extraordinary items.

During the year, the Company redeemed 574,300 Class A Subordinate Shares in the normal course of business, considering this to be one of the best possible uses of its surplus funds. These shares were acquired at an average price of $18.36, for a total consideration of $10.5 million.

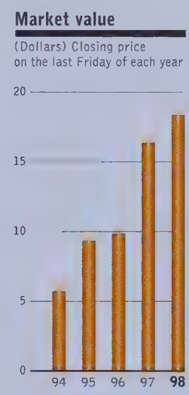
The balance of the Company's cash flow from operations was used to improve its financial position. The total debt/equity ratio was 0.15 compared with 0.35 last year. The long-term debt/equity ratio went from 0.32 in 1997 to 0.14 this year.

At year-end, the Company had close to $200 million in unused credit facilities with its bankers.



Stock market transactions

The price of Métro-Richelieu's shares increased over the year, trading between $14.50 and $22.25. A total of 22.2 million shares were traded on the Montréal and Toronto stock exchanges during the year. The closing price on Friday, September 25, 1998 was $18.35 on the Montreal Exchange and $18.50 on the Toronto Stock Exchange. The graph opposite shows the total cumulative return on a $100 investment in the Company's Class A Subordinate Shares, compared with the total return of the TSE 300 Index and the average return of the shares of food distribution companies listed on the Toronto Stock Exchange, for the period from September 1993 to September 1998.



Risks and uncertainties

The principal risk in the food market is the result of weak demographic growth and intense competition. The recent mergers of major Canadian food companies may be considered as new risks.

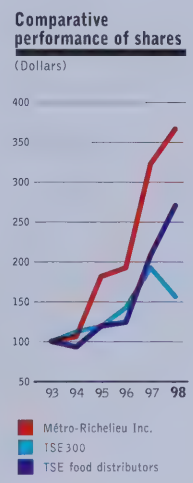
To meet these challenges, Métro-Richelieu is pursuing its store renovation program based on new concepts to improve its position in each market segment. Favouring leading-edge strategies to meet consumers' new eating habits, the Company and its retailers plan to invest $80 million next year in improvements to the entire retail network including store renovations and expansions.

Year 2000

The year 2000 issue and the challenge for businesses most certainly involve an element of risk. That is why the Company has made the year 2000 a priority. It is being examined by a Steering Committee comprised of members of senior management, which meets on a monthly basis to ensure a rigorous follow-up on the work plans of the Company's various year 2000 committees and sub-committees. The Steering Committee periodically reports on its progress to the Audit Committee and the Board of Directors.

The Company has taken an inventory of the computer systems and equipment and any other equipment with date-activated features. It is also contacting its principal business partners to inquire about the extent of their year 2000 preparations.

To be positioned on the leading edge of technology and overcome the effects of the new millennium on its computer systems, the Company decided at the end of fiscal 1997 to acquire and implement SAP R/3 integrated management software. As well as providing strategic advantages for Métro-Richelieu, this software will make the Company year 2000 compliant for the applications that need to be replaced. The conversion of systems to SAP R/3 is being carried out gradually, division by division, and is expected to be completed before year 2000.



The Company has chosen to perform immediate year 2000 conversions for systems currently used by the divisions scheduled for the latter months of the SAP R/3 implementation, in order to avoid any delays that may hinder the normal course of its business. For most divisions considered to be at higher risk, the Company has already converted all of their existing systems. Conversions for the remaining divisions should be completed by early 1999.

The Company believes that it is taking all the necessary precautions, and is confident that it will be able to efficiently pursue its activities during and after year 2000, while continuing to secure its shareholders' investments for the long term. However, it is impossible to ascertain whether all aspects of the year 2000 issue, including those related to clients, suppliers and third parties, will be completely resolved.

Outlook

Métro-Richelieu's new management tools, the concepts developed for each of its banners, the investments in its retail network, the innovative programs set up for its retailers and the professionalism of its people are all critical factors that will allow the Company to face the competition and continue to grow in a rapidly changing world.

Serge Gadbois

L. G. Serge Gadbois, FCA
Senior Vice-President, Finance

Quarterly highlights

(Millions of dollars, except for earnings per share)

Year ended September 26, 1998	1st quarter[1]	2nd quarter[1]	3rd quarter[2]	4th quarter[1]	Year
Sales	845.0	803.7	1,140.2	864.1	3,653.0
Operating income	29.0	28.3	42.1	30.8	130.2
Net earnings before certain non-recurring items	17.1	16.4	24.6	17.8	75.9
Net earnings	17.1	16.4	24.6	7.3	65.4
Fully diluted net earnings per share before certain non-recurring items	0.32	0.32	0.47	0.34	1.45
Fully diluted net earnings per share	0.32	0.32	0.47	0.14	1.25
Year ended September 27, 1997					
Sales	811.4	752.5	1,071.9	796.5	3,432.3
Operating income	26.8	25.0	36.7	26.9	115.4
Net earnings	15.5	14.1	21.0	15.6	66.2
Fully diluted net earnings per share	0.29	0.27	0.40	0.30	1.26
Year ended September 28, 1996					
Sales	780.0	701.5	1,020.4	764.1	3,266.0
Operating income	24.7	21.9	33.5	24.9	105.0
Net earnings	14.6	12.7	19.6	14.1	61.0
Fully diluted net earnings per share	0.23	0.20	0.31	0.22	0.96

1. 12 weeks
2. 16 weeks

Management's Responsibility for Financial Reporting

The consolidated financial statements of Métro-Richelieu Inc. and financial information contained in this Annual Report are the responsibility of management. This responsibility is based on a judicious choice of accounting procedures and principles, the application of which requires the informed judgment of management. The consolidated financial statements were prepared according to generally accepted accounting principles in Canada and were approved by the Board of Directors. In addition, the financial information included in the Annual Report is consistent with the consolidated financial statements.

Métro-Richelieu Inc. maintains accounting and administrative control systems which, in the opinion of management, ensure reasonable accuracy, relevance and reliability of financial information and well-ordered, efficient management of the Company's affairs.

The Board of Directors is responsible for approving the consolidated financial statements included in this Annual Report, primarily through its Audit Committee. This Committee, which holds periodic meetings with members of management as well as internal and external auditors, reviewed the consolidated financial statements of Métro-Richelieu Inc. and recommended their approval to the Board of Directors.

The enclosed consolidated financial statements were audited by Caron Bélanger Ernst & Young, Chartered Accountants, and their report indicates the extent of their audit and their opinion on the consolidated financial statements.

Pierre H. Lessard, FCA
President and Chief Executive Officer

L.G. Serge Gadbois, FCA
Senior Vice-President, Finance

Montréal, October 30, 1998

Auditors' Report

To the Shareholders of Métro-Richelieu Inc.

We have audited the consolidated balance sheet of Métro-Richelieu Inc. as at September 26, 1998 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 26, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

The financial statements as at September 27, 1997 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated October 29, 1997.

Caron Bélanger Ernst & Young

Caron Bélanger Ernst & Young
Chartered Accountants

Montréal, October 30, 1998

Consolidated statement of earnings

Year ended September 26, 1998 (Millions, except for earnings per share)	1998	1997	1996
Sales	$ 3,653.0	$ 3,432.3	$ 3,266.0
Cost of goods sold and operating expenses	3,483.1	3,277.7	3,124.0
Depreciation and amortization *(note 2)*	39.7	39.2	37.0
	3,522.8	3,316.9	3,161.0
Operating income	130.2	115.4	105.0
Financing costs			
Short-term	1.1	1.2	1.2
Long-term	3.8	4.1	1.8
	4.9	5.3	3.0
Earnings before income taxes and the following items	125.3	110.1	102.0
Labour relations settlement	24.1	—	—
Gain on disposal of investment	(6.1)	—	—
Earnings before income taxes	107.3	110.1	102.0
Income taxes *(note 3)*	41.9	43.9	41.0
Net earnings	$ 65.4	$ 66.2	$ 61.0
Earnings per share			
Basic	$ 1.28	$ 1.29	$ 1.00
Fully diluted	$ 1.25	$ 1.26	$ 0.96
Weighted average number of shares outstanding	50.9	51.2	61.1

See accompanying notes

Additional information excluding labour relations settlement and gain on disposal of investment			
Net earnings	$ 75.9	$ 66.2	$ 61.0
Earnings per share			
Basic	$ 1.49	$ 1.29	$ 1.00
Fully diluted	$ 1.45	$ 1.26	$ 0.96

Consolidated statement of retained earnings

Year ended September 26, 1998 (Millions of dollars)	1998	1997	1996
Balance, beginning of year	$ 138.5	$ 85.2	$ 115.4
Net earnings	65.4	66.2	61.0
	203.9	151.4	176.4
Dividends	10.4	7.7	6.7
Share redemption premium	8.8	5.2	84.5
Stock options settled in cash	1.1	—	—
	20.3	12.9	91.2
Balance, end of year	$ 183.6	$ 138.5	$ 85.2

See accompanying notes

As at September 26, 1998 (Millions of dollars)	1998	1997	1996
Assets			
Current			
Cash	$ —	$ —	$ 3.1
Accounts receivable	160.9	147.1	144.2
Income taxes	10.7	3.5	—
Inventories	166.9	164.8	145.0
Prepaid expenses	11.3	10.3	10.0
Current portion of investments *(note 4)*	0.7	2.4	2.5
	350.5	328.1	304.8
Investments *(note 4)*	17.0	18.2	17.4
Capital assets *(note 5)*	420.0	379.2	340.9
	$ 787.5	$ 725.5	$ 663.1
Liabilities and shareholders' equity			
Current			
Bank loans	$ 0.5	$ 7.5	$ —
Outstanding cheques	33.1	11.6	5.9
Accounts payable	329.3	301.7	285.4
Income taxes	—	—	6.0
Current portion of long-term debt *(note 6)*	3.5	2.7	6.5
	366.4	323.5	303.8
Long-term debt *(note 6)*	48.6	94.6	106.2
Deferred income taxes	29.9	11.2	12.6
	444.9	429.3	422.6
Shareholders' equity			
Capital stock *(note 7)*	159.0	157.7	155.3
Retained earnings	183.6	138.5	85.2
	342.6	296.2	240.5
	$ 787.5	$ 725.5	$ 663.1

See accompanying notes

On behalf of the Board:

Jean-Pierre Boyer
Director

Gilles Lamoureux
Director

Consolidated statement of changes in financial position

Year ended September 26, 1998 *(Millions of dollars)*	1998	1997	1996
Operating activities			
Net earnings	$ 65.4	$ 66.2	$ 61.0
Items not affecting cash			
Amortization and depreciation of capital assets	39.7	39.2	37.0
Loss (gain) on disposal of assets	(6.1)	1.2	(1.1)
Deferred income taxes	18.7	(1.4)	0.3
	117.7	105.2	97.2
Net change in non-cash working capital items	3.5	(16.2)	(3.1)
	121.2	89.0	94.1
Financing activities			
Increase in long-term debt	3.6	7.5	120.4
Repayment of long-term debt	(48.8)	(22.9)	(39.5)
Issuance of capital stock	3.0	3.8	6.9
Redemption of Subordinate Shares	(10.5)	(6.6)	(123.4)
Stock options settled in cash	(1.1)	—	—
	(53.8)	(18.2)	(35.6)
Investing activities			
Acquisition of investments	(4.2)	(3.6)	(4.1)
Disposal of investments	13.2	2.9	1.8
Net acquisitions of capital assets	(80.5)	(78.7)	(56.6)
	(71.5)	(79.4)	(58.9)
Dividends	(10.4)	(7.7)	(6.7)
Decrease in cash during the year	(14.5)	(16.3)	(7.1)
Cash position, beginning of year	(19.1)	(2.8)	4.3
Cash position, end of year	$ (33.6)	$ (19.1)	$ (2.8)

Cash consists of cash less bank loans and outstanding cheques.

See accompanying notes

September 26, 1998, September 27, 1997 and September 28, 1996
(Millions of dollars, except for share price)

1. Summary of significant accounting policies

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada which require management to make estimates and assumptions that affect the amounts recorded in the financial statements. Also, the preparation of the Company's financial statements by management requires the selection of appropriate accounting policies, which are summarized below:

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries.

Inventory valuation

Wholesale inventories are valued at the lower of cost, determined on a first in, first out basis, and net realizable value.

Retail inventories are valued at the retail price less the profit margin.

Investments

Investments in companies subject to significant influence are accounted for using the equity method. Other investments are recorded at cost.

Capital assets

Capital assets are recorded at cost. The depreciation and amortization methods and the estimated useful lives are subject to a periodical review. The Company analyzes the net book value of capital assets on an annual basis. Thus, it assesses its ability to recover the net book value of capital assets according to operating trends and other relevant items.

Capital assets are amortized using the straight-line method based on their estimated useful lives:

Buildings	40 years
Equipment	4 to 20 years
Leasehold improvements	Terms of the leases (5 to 40 years)
Goodwill	20 to 40 years
Leasehold rights	Terms of the leases (30 and 40 years)
Improvements and development of retail network loyalty, software and other	5 to 10 years

Pension plans

Pension costs of defined benefit and defined contribution pension plans, related to current services, are charged to earnings for the period during which the services are rendered. Past service costs are amortized over the expected average remaining service life of the employee group covered by the plans. The difference between the pension costs and contributions paid is recorded on the balance sheet under prepaid expenses.

Income taxes

The Company follows the tax allocation method in providing for income taxes. Under this method, timing differences between earnings for accounting purposes and earnings for tax purposes give rise to deferred income taxes.

Segmented information

The Company's operations consist of one major industry segment which is the food industry, consequently no segmented information is presented.

Fiscal year

The Company's fiscal year ends on the last Saturday of September. Accordingly, its fiscal year includes 52 weeks of operations.

2. Depreciation and amortization

	1998	1997	1996
Tangible assets	$ 23.3	$ 25.5	$ 25.7
Intangible assets			
Goodwill	2.7	2.8	2.8
Leasehold rights	2.4	2.6	2.5
Improvements and development of retail network loyalty, software and other	11.3	8.3	6.0
	$ 39.7	$ 39.2	$ 37.0

3. Income taxes

	1998	1997	1996
Current	$ 23.2	$ 45.3	$ 40.7
Deferred	18.7	(1.4)	0.3
	$ 41.9	$ 43.9	$ 41.0

The effective income tax rate is as follows:			
Combined statutory income tax rate	38.3%	38.3%	38.0%
Changes in income tax rates resulting from:			
Non-deductible goodwill	0.8	0.8	0.8
Other	(0.1)	0.8	1.4
	39.0%	39.9%	40.2%

4. Investments

	1998	1997	1996
Investments in companies subject to significant influence			
Private	$ 0.9	$ 0.9	$ 0.9
Public (quoted market value 1998 – $41.3, 1997 – $28.4 and 1996 – $19.7)	11.7	10.8	9.5
Investments in other private companies at cost	1.1	1.1	1.3
Loans bearing interest at various rates	4.0	7.8	8.2
	17.7	20.6	19.9
Current portion	0.7	2.4	2.5
	$ 17.0	$ 18.2	$ 17.4
Share in earnings of companies subject to significant influence	$ 1.7	$ 1.3	$ 1.2

5. Capital assets

	1998			1997			1996
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value	Net book value
Tangible assets							
Land	$ 23.1	$ —	$ 23.1	$ 20.7	$ —	$ 20.7	$ 13.2
Buildings	105.2	36.9	68.3	98.6	34.0	64.6	58.5
Equipment	211.9	110.0	101.9	212.6	121.7	90.9	80.2
Leasehold improvements	73.3	47.1	26.2	63.8	44.4	19.4	14.3
	413.5	194.0	219.5	395.7	200.1	195.6	166.2
Intangible assets							
Goodwill	98.8	29.3	69.5	97.5	26.7	70.8	73.2
Leasehold rights	88.5	23.8	64.7	88.5	21.4	67.1	70.4
Improvements and development of retail network loyalty, software and other	118.2	51.9	66.3	89.1	43.4	45.7	31.1
	305.5	105.0	200.5	275.1	91.5	183.6	174.7
	$719.0	$299.0	$420.0	$670.8	$291.6	$379.2	$340.9

6. Long-term debt

	1998	1997	1996
Notes, bearing interest at the banker's acceptance rate plus 0.4% or at the prime rate	$ 40.0	$ 85.0	$ 100.0
Other loans, maturing at different dates	5.7	7.3	1.7
Obligations under capital leases bearing interest at an average rate of 7.5%, maturing on various dates until 2005	6.4	5.0	11.0
	52.1	97.3	112.7
Current portion	3.5	2.7	6.5
	$ 48.6	$ 94.6	$ 106.2

These notes are part of a credit agreement which includes an evergreen loan of a maximum amount of $125, maturing in 2003 in which certain terms and conditions are renewable annually.

Minimum payments under capital leases during the next five years are as follows:

1999	$2.5
2000	1.8
2001	1.4
2002	0.6
2003 and following	1.1
	7.4
Less interest	1.0
	$6.4

7. Capital stock

Authorized

Unlimited number of First Preferred Shares, non-voting, without par value, issuable in series:

Series 2, participating, dividend at the same rate as Class A Subordinate Shares and Class B Shares, redeemable, convertible into an equal number of other participating shares. These shares have been redeemed and cancelled or converted into Class A Subordinate Shares.

Unlimited number of Class A Subordinate Shares, bearing one voting right per share, participating, convertible into Class B Shares in case of a takeover bid on Class B Shares, without par value.

Unlimited number of Class B Shares, bearing 16 voting rights per share, participating, convertible in case of disqualification into an equal number of Class A Subordinate Shares.

Issued

		1998	1997	1996
49,560,629	Class A Subordinate Shares (49,742,442 in 1997 and 49,542,974 in 1996)	$ 155.2	$ 154.2	$ 152.3
1,215,200	Class B Shares (1,301,600 in 1997 and 1,345,760 in 1996)	3.8	3.5	3.0
		$ 159.0	$ 157.7	$ 155.3

Stock options

Under a stock option plan, options were granted for the purchase of Class A Subordinate Shares. As at September 26, 1998, 2,047,058 Class A Subordinate Shares were reserved for issuance under the stock option plan at exercise prices varying from $5.00 to $18.50 until 2004. During 1998, the plan was modified to allow employees to elect to receive cash for the options equal to their intrinsic value, being the difference between the exercise price of the options and the current market value of the shares.

Change in capital stock

	1998		1997		1996	
	Number of shares		Number of shares		Number of shares	
Issuance of capital stock (for cash)						
Class A Subordinate Shares	273,687	$2.4	564,908	$3.1	1,930,560	$6.6
Class B Shares	32,400	$0.6	54,000	$0.7	32,400	$0.3
Redemption of shares (in cash)						
Class A Subordinate Shares (excluding a premium of $8.8 in 1998, $5.2 in 1997 and $84.5 in 1996)	574,300	$1.7	463,600	$1.4	12,647,400	$38.9
Conversion of shares into Class A Subordinate Shares						
First Preferred Shares, Series 2	—	—	—	—	2,275,862	$8.2
Class B Shares	118,800	$0.3	98,160	$0.2	96,120	$0.3

8. Contractual obligations

The Company has lease commitments, with varying terms extending to 2018, to lease premises which it uses for commercial purposes. The balance of the commitments in terms of minimum lease payments under these leases as at September 26, 1998 is $161.2. The minimum lease payments over the next five years are as follows: $17.2 in 1999, $15.5 in 2000, $13.9 in 2001, $13.4 in 2002 and $12.6 in 2003.

In addition, the Company has lease and lease offer commitments, with varying terms extending to 2018, to lease premises which it sublets to clients, generally under the same terms and conditions. The balance of the commitments in terms of minimum lease payments under these leases is $271.7 and the average annual payment for the next five years is $27.1.

9. Contingent liabilities

Endorsements

For certain of its clients with whom business relationships are established:

- The Company assumes a contingent liability as guarantor of lease agreements having varying terms extending to 2014 for which the annual minimum lease payment is $3.7. The maximum contingent liability under these endorsements as at September 26, 1998 is $28.9.
- The Company has endorsed loans granted by financial institutions for a maximum amount of $11.4. The balance of these loans as at September 26, 1998 is $4.5. In return, the Company holds a charge on some assets of its clients.

Claims

In the normal course of its business, various lawsuits and claims are brought against the Company. The Company contests the validity of these claims and lawsuits and management believes that any settlement will not have a significant effect on the financial position or on the consolidated earnings of the Company.

Year 2000 Issue

The year 2000 issue raises certain problems since many information systems use only two digits, instead of four, to record the year. Thus, these systems may incorrectly interpret "00", when it is used to designate the year 2000. The effects of the year 2000 issue may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. The Company is aware of the risks related to the year 2000 issue. In fact, for over a year now, management has been implementing a plan to resolve the problem. In addition, an evaluation of the extent of year 2000 preparation required by third parties such as clients, suppliers and others is now under way. However, it is impossible to ascertain whether all aspects of the year 2000 issue, including those related to clients, suppliers and third parties, will be completely resolved.

10. Pension plans

As at September 26, 1998, the actuarial value of pension benefits is $25.2 ($24.0 in 1997 and $21.0 in 1996) and the market value of the assets of the pension funds is $34.2 ($35.4 in 1997 and $27.7 in 1996).

11. Related party transactions

During the year, sales made to companies controlled by members of the Board of Directors totalled $65.7 ($117.6 in 1997 and $121.4 in 1996) and sales made to companies subject to significant influence totalled $108.6 ($102.8 in 1997 and $103.8 in 1996).

12. Fair value of financial instruments

The fair value of cash, accounts receivable, bank loans, outstanding cheques and accounts payable approximates their carrying value due to the short-term maturity of these items.

The fair value of loans included in investments and of the items included in long-term debt approximates their carrying value since they are at variable interest rates or at interest rates that are comparable to market rates.

13. Comparative figures

Certain comparative figures for prior years have been reclassified to conform with the presentation adopted in the current year.

	1998 (52 weeks)	1997 (52 weeks)	1996 (52 weeks)	1995 (53 weeks)	1994 (52 weeks)
Summary of results *(Millions of dollars)*					
Sales	3,653.0	3,432.3	3,266.0	3,145.6	2,909.0
Depreciation and amortization	39.7	39.2	37.0	38.7	40.4
Operating income	130.2	115.4	105.0	92.3	75.2
Financing costs	4.9	5.3	3.0	6.7	11.0
Non-recurring items					
Labour relations settlement	24.1	–	–	–	–
Gain on disposal of investment	6.1	–	–	14.6	–
Income taxes	41.9	43.9	41.0	39.1	27.0
Net earnings before certain non-recurring items	75.9	66.2	61.0	50.3	37.2
Net earnings	65.4	66.2	61.0	61.1	37.2
Changes in financial position *(Millions of dollars)*					
Cash flow from operations	121.2	89.0	94.1	102.4	78.7
Capital expenditures	80.5	78.7	56.6	35.6	37.8
Financial structure *(Millions of dollars)*					
Working capital	(15.9)	4.6	1.0	3.8	(4.7)
Current assets	350.5	328.1	304.8	291.8	258.6
Current liabilities	366.4	323.5	303.8	288.0	263.3
Capital assets	420.0	379.2	340.9	321.1	325.9
Total assets	787.5	725.5	663.1	628.4	599.4
Long-term debt	48.6	94.6	106.2	25.4	46.7
Shareholders' equity	342.6	296.2	240.5	302.7	276.6
Financial ratios					
Operating income/sales (%)	3.6	3.4	3.2	2.9	2.6
Net earnings before certain non-recurring items/sales (%)	2.08	1.93	1.87	1.60	1.28
Net earnings/sales (%)	1.79	1.93	1.87	1.94	1.28
Cash flow from operations/sales (%)	3.3	2.6	2.9	3.3	2.7
Return on shareholders' equity (%)	20.5	24.7	22.5	21.1	14.4
Long-term debt/equity (xx:1)	0.14	0.32	0.44	0.08	0.17
Total debt/equity (xx:1)	0.15	0.35	0.47	0.11	0.20
Working capital (xx:1)	0.96	1.01	1.00	1.01	0.98
Interest coverage (times)	22.9	21.8	35.0	16.0	6.8
Common share *(Dollars)*					
Earnings					
Net earnings before certain non-recurring items	1.49	1.29	1.00	0.81	0.57
Net earnings	1.28	1.29	1.00	0.99	0.57
Fully diluted net earnings before certain non-recurring items	1.45	1.26	0.96	0.79	0.55
Fully diluted net earnings	1.25	1.26	0.96	0.96	0.55
Dividends	0.205	0.15	0.11	0.06	–
Cash flow from operations	2.38	1.74	1.54	1.65	1.21
Book value	6.75	5.80	4.73	4.92	4.23
Market value					
High	22.25	17.05	10.20	9.50	6.19
Low	14.50	9.25	8.20	5.32	5.07
Number of shares outstanding at year-end *(Millions)*	50.8	51.0	50.9	61.6	65.4
Weighted average number of shares outstanding *(Millions)*	50.9	51.2	61.1	62.0	65.3
Trading volume *(Millions)*	22.2	35.7	46.5	36.0	21.1

Board of Directors

Mario Beaumier (1)(7)
Treasurer

Serge Bourgeault (2)
Director

Jean-Pierre Boyer (1)(3)(5)
Chairman of the Board

Micheline Charest (2)(5)
Director

Raymond David (2)(3)
Director

Serge Ferland (2)
Director

Paul Gobeil (1)(5)(6)
Vice-Chairman of the Board

Florent Gravel (6)
Director

Maurice Jodoin (1)(3)(4)
Director

Gilles Lamoureux (2)(4)(5)
Director

Yves LeBel (1)
Secretary

Pierre H. Lessard (1)(3)
Chairman of the Executive Committee

Guy Lussier (6)
Director

Bernard A. Roy (4)(5)(6)
Director

Pierre Shooner (1)(3)(6)
Director

(1) Member of the Executive Committee
(2) Member of the Audit Committee
(3) Member of the Human Resources and Ethics Committee
(4) Member of the Corporate Governance Committee
(5) Member of the Nomination Committee
(6) Member of the Pension Committee
(7) Member of the Marketing Committee

Management of Métro-Richelieu Inc.

Pierre H. Lessard
President and Chief Executive Officer

Paul Gobeil
Vice-Chairman of the Board

Gérald Tremblay
Executive Vice-President, Wholesale

L.G. Serge Gadbois
Senior Vice-President, Finance

Robert Sawyer
Senior Vice-President, Retail

Alain Picard
Vice-President, Human Resources

Jacques Couture
Vice-President, Information Systems

Management of Épiciers Unis Métro-Richelieu Inc.

Christian Bourbonnière
Vice-President, Produce

Pierre-Paul Bourdon
Vice-President, Food Services

Claude Brunetta
Vice-President, Development and Banner Development

Gilles Caron
Vice-President, Marketing

Marc Cassidy
Vice-President, Grocery, Eastern Québec

Jean-Louis Charpentier
Vice-President, Purchasing and Merchandising, Grocery

Michel Coulombe
Vice-President, Operations, Franchised Stores

Claude Henri
Vice-President, Retail Operations, Affiliated Stores

Paul Laporte
Vice-President, Distribution, Grocery

Lawrence Timmons
Vice-President, Meat and Frozen Products

Management of Super C

Jacques Obry
President

Eric Richer La Flèche
Senior Vice-President and General Manager

Yvan Brochu
Vice-President, Purchasing and Merchandising

Management of McMahon Distributeur pharmaceutique Inc.

Denise Martin
Vice-President and General Manager

As at December 1, 1998

Transfer agent and registrar:
General Trust of Canada

Bankers:
National Bank of Canada
Royal Bank of Canada
Bank of Montreal
Crédit Lyonnais Canada
CIBC Bank
Toronto-Dominion Bank
Caisse centrale Desjardins

Stock listings:
Montreal Exchange
Toronto Stock Exchange
Ticker Symbol: MRU.A

Auditors:
Caron Bélanger Ernst & Young
Chartered Accountants

Head office address:
11011 Maurice-Duplessis Blvd.
Montréal, Québec H1C 1V6

The Annual Information Form may be obtained from the Investor Relations Department:

MÉTRO-RICHELIEU INC.
11011 Maurice-Duplessis Blvd.
Montréal, Québec H1C 1V6
Tel.: (514) 643-1055
E-mail: finance@metro.ca

Vous pouvez vous procurer la version française de ce rapport auprès du service des relations avec les investisseurs.

Métro-Richelieu's corporate information and press releases are available on the Internet at the following address:
http://www.metro-richelieu.com

Annual meeting:
The Annual General Meeting of Shareholders will be held on January 26, 1999 at 11:00 a.m. at the Sheraton Centre
1201 René-Lévesque West
Montréal, Québec H3B 2L7

Dividends*

1999 fiscal year

Declaration date	Record date	Payment date
January 25, 1999	February 9, 1999	March 3, 1999
April 15, 1999	May 11, 1999	June 2, 1999
August 10, 1999	August 17, 1999	September 2, 1999
September 21, 1999	November 9, 1999	December 2, 1999

* Subject to approval by the Board of Directors

Bélanger Legault Communications Design ltée 1998

MétroRichelieu